GOVERNMENT OF INDIA
FINANCE AND COMPANY AFFAIRS
LOK SABHA

UNSTARRED QUESTION NO:1895
ANSWERED ON:29.11.2002
CODE OF ETHICS
ALE NARENDRA

Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

(a) the code of ethics evolved for directors of stock exchanges;

(b) whether instances of breach of this code have come to notices of the Government during the last three years;

(c) if so, the details thereof and action taken against them for the breach;

(d) whether SEBI have failed to discharge its duty in respect of Section 11 of SEBI Act, 1992;

(e) if so, the details thereof;

(f) the remedial steps taken by the Government in this regard;

(g) whether it has also come to notice of the Government that individual stock brokers are discharging their duties; and

(h) if so, the action taken by the Government thereon?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE AND COMPANY AFFAIRS (SHRI ANANDRAO V. ADSUL)
(a) to (c): The Securities and Exchange Board of India (SEBI)circular for implementing the code of ethics for directors and functionaries of stock exchanges was issued on May 18, 2001 and exchanges were required to implement the same by August 2001. The code of ethics has the following salient features:

• Exercising fairness and transparency in dealing with matters relating to the exchange and the investors;

• Disclosure of dealings in securities by functionaries and directors of the exchange;

• Avoidance of conflict of interest in decision making;

• Disclosures of beneficial interest by functionaries, and

• Compliance by functionaries with rules and regulations applicable to securities market.

Implementation of the code of ethics by exchanges required changes in the byelaws of exchanges, which have been made by exchanges. The code of ethics is applicable to the key functionaries of the exchanges including broker directors. It is not applicable to all stockbrokers. In January 2002, SEBI directed thatbroker directors could not be office bearers of an exchange. Consequently provisions in the code of ethics related to broker directors who were functionaries of the exchange have become redundant. As the code of ethics was to be implemented by exchanges from August 2001, breach of the code of ethics for earlier periods does not arise. Compliance of various SEBI circulars/guidelines/directives bya stock exchange is looked into at the time of inspection of a stock exchange. Accordingly, compliance with the abovesaid directive of SEBI pertaining to codeof ethics would be looked into during the inspections to be conducted in this year (for 2002-03).

(d) to (h): Section 11 of the SEBI Act, 1992 providesthat it is the duty of the SEBI Board to protect theinterest of investors in securities and to promote the development of and to regulate the securities market by such measures as it thinks fit. SEBIhas intimated that it has taken various measures, in the interest of investors and orderly development of the securities market, from time to time to perform its duties effectively. Recent experience of SEBI during episodes of marketmisconduct has revealed many limitations in the legal provisions of the SEBI Act. To remedy the situation, anOrdinance amending the SEBI Act, 1992 has beenpromulgated, inter-alia, to strengthen SEBI`s investigationand enforcement mechanism. A Bill to convert the Ordinance into an Act is presently before the Parliament.

SEBI has investigated the affairs of over60 companies/broker firms/OCBs for violation ofvarious SEBI regulations during the course of investigations into the events leading to the crisis in the stock markets during early 2001. Action taken, so far, inter-alia, include prohibition of certain brokers from dealing in securities, for example, Credit Suisse FirstBoston Securities Pvt. Ltd. andcancellation of certificate of registration , for example, of certain broking firms under the Biyani Group, PoddarGroup, Singhania Group, Nirmal Bang Group etc and initiation of quasi-judicial proceedings against them.